NEW APPLICATION
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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF ESCHELON TELECOM OF ARIZONA, INC., MOUNTAIN TELECOMMUNICATIONS OF ARIZONA, INC. AND ELECTRIC LIGHTWAVE, LLC FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS

DOCKET NO. T-03406A-10-0032
T-03432A-10-0032
T-03054A-10-0032

APPLICATION FOR FINANCING ORDER
(Expedited Approval Requested)

I. INTRODUCTION.

Eschelon Telecom of Arizona, Inc., Mountain Telecommunications of Arizona, Inc. and Electric Lightwave, LLC ("Integra Entities" or "Applicants"), request that the Arizona Corporation Commission ("Commission") authorize Applicants pursuant to A.R.S. § 40-285 and A.A.C. R14-2-804, and, to the extent necessary, any other applicable statutes or rules, to participate in various financing arrangements contemplated by their ultimate corporate parent, Integra Telecom, Inc. ("Integra Parent") or their immediate parent, Integra Telecom Holdings, Inc. ("Integra Holdings"), as described more fully herein.

The Integra Entities provide resold and facilities-based telecommunications and exchange access services in Arizona pursuant to Certificates of Convenience and Necessity granted by the Commission. The Integra Entities are indirect wholly owned subsidiaries of Integra Parent, a privately held Oregon corporation headquartered in Portland, Oregon.

Integra Parent anticipates that over the next five years it or Integra Holdings will enter into various financing arrangements including, but not limited to, transactions to amend, restate, and/or refinance long-term debt, finance new capital expenditures, and obtain funding for general corporate purposes and working capital, including an increased revolving account or additional letters of credit. Certain of these arrangements will require guarantees or pledges of assets by the Integra Entities. In order for Integra Parent or Integra Holdings to capture market conditions favorable to such arrangements, Integra Entities need the flexibility to immediately participate in such financing transactions before such conditions change and the opportunity to take advantage of favorable financing conditions and other business opportunities is lost. Accordingly, Integra Entities request an order providing them with the flexibility to participate in various financing transactions and related arrangements as follows:

1. Authorization under A.R.S. §40-285 to encumber their Arizona assets as security for up to $950 million in debt financing arrangements and letters of credit of Integra Parent (and, as applicable, its subsidiaries, including Applicants) ;

2. Authorization under A.A.C. R14-2-804 to guarantee the obligations of Integra Parent (and, as applicable, its other subsidiaries) for up to $950 million in debt and/or letters of credit. The requested authorization will cover the execution and delivery of one or more guarantees, pledge and security agreements, and such other agreements as may be required; and

3. Authorization to participate in various financing arrangements related to any restructuring, refinancing and arrangements to protect and hedge against floating interest rate risks related to any debt obligations of Integra Parent (and, as applicable, its subsidiaries, including Applicants) covered by the authorization granted in paragraphs 1 and 2 above, so long as the total debt obligations at any one time outstanding complies with such conditions as the Commission determines are necessary to include in its order approving this Application. The authorization to participate in such related financing arrangements shall permit refinancings, refundings, renewals, reissuances, redemptions, and rollovers of any such indebtedness outstanding, the incurrence or issuance of additional indebtedness, and the amendment or revision of any terms or provisions of, or relating to, any indebtedness.

The authority described above will provide Integra Parent and its subsidiaries with the flexibility required to access the capital markets in a timely and efficient manner, to take advantage of opportunities to reduce its financing costs, obtain more attractive terms and conditions and/or

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relaxed covenant restrictions, better leverage its financial resources, and select the financing options most appropriate for the purpose of the debt. The Integra Entities submit that Commission approval of this Application will enable Integra Parent to strengthen its financial condition and that of its subsidiaries, which will enhance the Integra Entities' competitive position in the Arizona telecommunications marketplace, and ultimately inure to the benefit of Arizona customers. Granting of this Application therefore will serve the public interest.

II. DESCRIPTION OF THE PARTIES.

B. Integra Telecom, Inc. and Integra Telecom Holdings, Inc.

Integra Telecom, Inc. is a privately held Oregon headquartered in Portland, Oregon. In Arizona, Integra Parent provides local telephone service, long distance calling and high-speed Internet access to small and mid-sized businesses through three wholly owned subsidiaries: Eschelon Telecom of Arizona, Inc., Mountain Telecommunications of Arizona, Inc. and Electric Lightwave, LLC. Through its operating subsidiaries, Integra Parent currently provides service to over 130,000 business customers in Arizona, California, Colorado, Idaho, Minnesota, Montana, Oregon, Nevada, North Dakota, Utah and Washington.

Integra Telecom Holdings, Inc. is a privately held Oregon corporation. It is a direct subsidiary of Integra Parent and an intermediate holding company of the Integra Entities.

B. Integra Entities.

In Arizona, all three Integra Entities are authorized to provide local exchange and other intrastate telecommunications services. Eschelon Telecom of Arizona, Inc. is authorized to provide service pursuant by Decision No. 62751, granted July 25, 2000. Mountain Telecommunications of Arizona, Inc. is authorized to provide service by Decision No. 60668, granted February 9, 1998. Electric Lightwave, LLC is authorized to provide service by Decision No. 59982, granted on January 16, 1997.

The Integra Entities' primary operations and customer bases are located in the Phoenix and Tucson areas, with operations and customers in other market areas throughout Arizona. They do not offer service to residential customers in Arizona. In Arizona, the Integra Entities have over

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240 employees, over 7000 miles of fiber, and over 10,000 customers, predominantly in the Phoenix metro area. The Integra Entities offer local dial tone, domestic and international long distance, high-speed Internet and data services (including digital subscriber line or DSL), voice messaging, and numerous ancillary services designed to support the communications needs of businesses.

As shown in their 2008 Annual Reports filed with the Commission, the Integra Entities each generated more than $1 million of Arizona jurisdictional revenue. Applicants therefore are Class A utilities subject to the Commission's Public Utility Holding Companies and Affiliated Interest Rules, A.A.C. R14-801 *et seq.*[1]

C. Designated Contacts.

Questions, correspondence or other communications concerning this Application should be directed to:

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with a copy to the following designated representative of the Integra Entities:

J. Jeffery Oxley
General Counsel
Integra Telecom, Inc.
1201 N.E. Lloyd Blvd. Suite 500

[1] In Decision No. 64737 (April 17, 2001), Eschelon Telecom of Arizona, Inc. was granted a waiver of A.A.C. R14-803, R14-804 (B), (C) and (D) and R14-805, except for transactions that would directly or indirectly result in or cause an increase in its maximum rate on file with the Commission for any competitive service. The requested approval here will not directly or indirectly result in or cause an increase in any of Eschelon Telecom's maximum rates.

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III. APPLICANTS' CURRENT SUPPORT OF PARENT FINANCIAL OBLIGATIONS.

Under Decision No. 69707 (July 18, 2007), the Commission authorized the Integra Entities to guarantee obligations and to pledge, mortgage, lien and/or encumber their assets in support of certain loan facilities totaling $985 million. Presently, the total secured and guaranteed debt is approximately $650 million as a result of paying down existing debt and a financial restructuring *in which some of the debt was converted to equity.*

IV. REQUEST FOR APPROVAL TO PARTICIPATE IN VARIOUS DEBT FINANCING ARRANGEMENTS.

A. Purposes of Financing Transactions.

Integra Parent anticipates that over the next five years it will enter into various financing transactions for the following purposes: (i) to refinance existing long-term debt obligations with lower cost debt instruments; (ii) to refinance existing long-term debt maturities; (iii) to finance new capital expenditures supporting both the expansion of its existing footprint, including the acquisition of other telecommunications companies and/or telecommunications assets, and the enhancement of its communications service offerings; and (iv) to provide for working capital and other general corporate purposes. It also anticipates that it will increase its revolving credit facility potentially up to $100 million. The revolving credit facility is a flexible way for Integra Parent and its subsidiaries to have reliable committed borrowing capacity that is used only when needed. Under that facility, lenders have a contractual commitment to provide loans to Integra as needed and Integra can borrow and repay as dictated by its needs up to a ceiling amount. The revolving credit facility will also provide for the lenders to issue letters of credit on Integra's behalf. Revolving credit facilities typically have floating interest rates that are based on either LIBOR or the Prime Rate.

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B. Request for Prior Approval to Participate in Such Financing Transactions.

In connection with such financing transactions, it is expected that Integra Entities (together with certain other Integra Parent subsidiaries) will be required to guarantee and secure the debt obligations of Integra Parent (or other subsidiaries of Integra Parent, such as Integra Holdings, incurring debt pursuant to such transactions) by encumbering their assets and executing and delivering one or more guarantees, pledge agreements, and such other security agreements as may be required in a given transaction.

In anticipation of these transactions and recognizing the need to expeditiously capture favorable market conditions as may occur from time to time, the Integra Entities request the Commission to issue a order authorizing the Integra Entities to participate in these financing transactions and related arrangements as follows:

1. Authorization under A.R.S. §40-285 to encumber their Arizona assets as security for up to $950 million in debt financing arrangements and letters of credit of Integra Parent (and, as applicable, its subsidiaries, including Applicants);

2. Authorization under A.A.C. R14-2-804 to guarantee the obligations of Integra Parent (and, as applicable, its other subsidiaries) for up to $950 million in debt and/or letters of credit. The requested authorization will cover the execution and delivery of one or more guarantees, pledge and security agreements, and such other agreements as may be required; and

3. Authorization to participate in various financing arrangements related to any restructuring, refinancing or arrangements to protect and hedge against floating interest rate risks related to any debt obligations of Integra Parent (and, as applicable, its subsidiaries, including Applicants) covered by the authorization granted in paragraphs 1 and 2 above, so long as the total debt obligations at any one time outstanding complies with such conditions as the Commission determines are necessary. The authorization to participate in such related financing arrangements shall permit refinancings, refundings, renewals, reissuances, redemptions, and rollovers of any such indebtedness outstanding, the incurrence or issuance of additional indebtedness, and the amendment or revision of any terms or provisions of, or relating to, any indebtedness.

C. Expected Core Terms of Future Financing Arrangements.

The exact amounts and terms of each financing transaction or related arrangement, which may be completed in multiple tranches, will not be finalized until the specific arrangement(s) have been completed or shortly before funding of the various transactions, and will reflect market conditions then existing. Some of the terms, such as the interest rate, may fluctuate during the term of the financing due to changes in market condition and the financial condition of Integra Parent. The core terms of each such financing arrangement are expected to be substantially as follows:

Funding Providers: The funding providers may be banks, financial institutions, private lending institutions, private individuals, and/or other institutions, either individually or a consortium. The funding group may change over the life of the financing.

Amount: Up to $950 million.

Debt instruments. Portions of the financed funds may be in the form of conventional credit facilities, such as revolving credits (which can be reborrowed during the term of the commitment); letters of credit; secured or unsecured notes or debentures (including notes convertible into common stock) issued to banks, other types of financial institutions or other investors; and term loans.

Maturity: Any maturity date will be subject to negotiation and will depend on credit conditions. All maturity dates will be longer than one (1) year.

Interest: Any interest rate will likely be the market rate for similar financings and will not be determined until the financing is finalized. The interest rate may be a fixed rate, a floating rate or a combination of the two, depending on the most beneficial opportunities for Integra Parent and its subsidiaries. As is typical in such transactions, the floating interest rate will have two components: a base rate and a margin rate. The base rate would be defined as the base or prime rate charged by a specified major bank for loans of similar size with similar maturities or as an adjusted federal funds rate. The LIBOR rate is the rate at which a group of major banks borrow. This rate is determined every business day. In current market conditions it is typical that a

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borrower would be subject to a LIBOR floor meaning that the borrower would substitute the floor for LIBOR at those times at which the LIBOR rate is below the floor. Current floor levels are negotiable but typically would be between 1.5% and 3%. The fixed rate loans also have two components. They typically have a coupon rate -- the rate that determines periodic interest payments. In addition, there is typically an Original Issue Discount (OID) which is similar to an up front fee. For example, a borrower who borrows $10 million with a 2% OID would only receive $9.8 million of proceeds yet the interest paid and principal owed would be based on $10 million.

Security: Relevant to this Application, some and perhaps all of the loans or letters of credit to Integra Parent or its subsidiaries are expected to be secured by a security interest in substantially all of Integra Entities' assets. The stock of the Integra Entities may also be pledged as additional security. Additionally, it is expected that the Integra Entities will provide guarantees or may be a borrower or co-borrower. The security documents will contain appropriate provisions indicating that exercise of certain rights thereunder may be subject to obtaining prior regulatory approval.

Use of Proceeds: As noted above, proceeds will be available to refinance existing long-term debt obligations with lower cost debt instruments; refinance existing long-term debt maturities; finance new capital expenditures; and for working capital and other general corporate purposes. Additionally, proceeds of any such transactions may be used to pay fees and expenses incurred in connection with such arrangements.

The proposed financings are purely financial in nature and will not alter the rates, terms, conditions or services offered by Integra Entities in Arizona. Integra Entities will remain wholly-owned subsidiaries of Integra Parent and will continue to operate as a provider of telecommunications services in Arizona. Neither the deposits accounts nor the existing performance bonds and/or letters of credit of the Integra Entities will be pledged as security for any of the financings.

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V. PUBLIC INTEREST CONSIDERATIONS.

Granting of this Application will serve the public interest because the authorization requested will enable Integra Parent and its subsidiaries to capture favorable market conditions in a timely and efficient manner and thereby take advantage of opportunities to reduce its financing costs, obtain more attractive terms and conditions and relaxed covenant restrictions, better leverage its financial resources, and select the financing options most appropriate for the purpose of the debt. The flexibility afforded by the authorization will enable Integra Parent to strengthen its financial condition and, in turn, create opportunities to enhance the respective competitive position of the Integra Entities in the Arizona telecommunications marketplace, all of which ultimately will inure to the benefit of their respective Arizona customers.

Approval of this Application is particularly important to the Integra Entities in light of the U.S. economic situation, which is reflected in the continued turbulence in financial markets worldwide. The wave of U.S. bank failures coupled with the freeze in credit markets has led Integra Parent to consider fresh approaches to navigating the altered landscape of the financial markets. Whereas prior to the economic crisis, Integra Parent and its subsidiaries were able to monitor and take advantage of favorable market conditions that presented windows of opportunity that remained open for extended periods of time, the current economic climate and market instability require Integra Parent and its subsidiaries to have the ability to move quickly to take advantage of favorable financing opportunities before they disappear. Integra Parent anticipates that favorable conditions may arise in the near future that would allow it to replace existing financial obligations with much more favorable terms.

The ability to move quickly depends in large measure on the length of time required to obtain regulatory approval. Whereas in the past, the Integra Entities have generally had adequate time to obtain prior regulatory approval to participate in financing arrangements, Integra Parent believes it can no longer seize such favorable opportunities if applications for regulatory approval must contain all of the key terms of the financing arrangement being contemplated. Faced with the continued economic uncertainty reflected the financial markets, Integra Parent must have both the

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ability to respond immediately to capture favorable market conditions and the flexibility to enter into different types of debt financing arrangements. For this reason, the Integra Entities submit this Application for prior approval of the anticipated financing arrangements before negotiations of these arrangements, including key terms and conditions, have been concluded. The Integra Entities have therefore supplied the core terms expected of these arrangements and explained the purposes for which the proceeds may be used. This approach strikes the proper balance between complying with the statutory requirement to obtain approval of an encumbrance and the practical reality that certain terms and conditions will be determined when negotiation of the arrangement has been completed (which is expected to occur shortly before the transaction closes).

If the Integra Entities cannot use this approach, Integra Parent may be forced to forgo financial opportunities that could reap the company substantial savings and other economic benefits. In turn, the benefits that would flow to the Integra Entities, from Integra Parent's strengthened financial position would be lost, along with potential service benefits and enhancements that would inure to their Arizona customers. The authorization sought in this Application is similar in nature and scope to that which the Commission granted in Decision No. 69707. Granting this Application will similarly serve the public interest.

Finally, approval of this Application would not be contrary to the public interest because no transfer of the Integra Entities' Certificates, assets or customers will occur as a result of the Integra Entities' participation in any debt financing transaction. Immediately following the Integra Entities' execution of the relevant documents in connection with the debt financing arrangements, the Integra Entities will continue to provide service to its Arizona customers pursuant to its existing Certificates with no change in the rates or terms and conditions of service as currently provided. These arrangements, moreover, will not affect the Integra Entities' deposit accounts or the existing performance bonds and/or letters of credits posted by the Integra Entities. The Integra Entities' participation in these debt financing arrangements will therefore be transparent to Arizona customers.

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VI. CONCLUSION.

For foregoing reasons, the public interest, convenience, and necessity will be furthered by the issuance of an order granting this Application and authorizing the Integra Entities to participate in the various financing transactions and related arrangements described herein. The Integra Entities respectfully request expedited consideration and approval of this Application without hearing.

RESPECTFULLY SUBMITTED this 29th day of January, 2010.

ROSHKA DEWULF & PATTEN, PLC

By ______________________________
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Attorneys for the Integra Entities

Original and 13 copies of the foregoing filed this 29th day of January 2010 with:

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Copy of the foregoing hand-delivered/mailed this 29th day of January 2010 to:

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